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C O N F I D E N T I A L CAIRO 005935

SIPDIS

STATE FOR NEA/ELA, NEA/RA, AND EB/IDF  
TREASURY FOR MILLS/NUGENT/PETERS

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SUBJECT: NEA SENIOR ADVISOR MALLORY MEETING WITH EGYPTIAN  
MINISTER OF INVESTMENT

REF: CAIRO 5083

Classified by A/DCM Michael Corbin for reasons 1.4 (b) and (d).

1. (SBU) NEA Senior Advisor King Mallory and private sector consultant Ahmed Dabbous met on July 28 with Egyptian Minister of Investment Mahmoud Mohieldin. Mohieldin was accompanied by Mohamed Atallah, Vice Chairman of the General Authority for Free Zones and Investment (GAFI), and the Hani Sarie-Eldin, Chairman of the Capital Markets Authority. The discussion focused on the draft MOU to create the Fund for the Future (reftel), which will be signed at the Forum for the Future meeting in Bahrain in November.

2. (C) Mohieldin had only a few suggestions for changes to the draft MOU, including the following:

A) An accelerated time table for making contributions to the Fund:

- 60% by 6/06 (vice 20% in draft);
- 80% by 6/07 (vice 60% in draft);
- 100% by 6/08 (same as draft).

Another alternative would be to make contributions in two tranches rather than three, but Mohieldin did not give suggested percentages or a timetable for this alternative. Mallory and Dabbous explained that the U.S. contribution would be coming from MEPI funds, and Congress would authorize contributions and appropriate them annually, based on the success of the Fund in meeting its objectives. Therefore, it might not be possible to accelerate the U.S. contribution as the GOE had suggested.

B) Greater participation for partner countries (i.e., Egypt and Morocco) in the investment process. Mohieldin questioned how involved the GOE could become in management of the Fund, suggesting that the GOE would like a greater say in decisionmaking than what was envisioned in the draft MOU. Mallory and Dabbous explained that the partner countries would be able to suggest private individuals to be named to the Board of Directors by POTUS. The Board would then name the Fund's management team, and would be directly involved in decision making regarding funding proposals/projects. This clarification seemed to address Mohieldin's concerns.

C) The GOE would like to make its contribution to the Fund in local currency, not in USDs. The main concern seemed to be the greater exchange risk involved in making contributions to the Fund in USDs. Mallory and Dabbous explained that partner countries could make contributions to the Fund in their local currencies, and that the Fund would bear the exchange risk involved in any investments. The Fund's management team would, however, have discretion to change monies in the Fund account into various currencies, in order to minimize the exchange risk.

D) The GOE wanted to direct the Fund toward medium sized enterprises, rather than small and medium sized enterprises. Small enterprises are serviced by a number of other financing programs, so the GOE would like to focus on medium size projects. Mallory and Dabbous explained that funding small enterprises could not be eliminated from the Fund's objectives entirely, as Morocco (or any future partner countries) might want to use the Fund to finance small enterprises. If Egypt independently chose to finance mainly medium sized projects, that would be its prerogative. The GOE would be able to direct financing toward medium sized enterprises through its representatives on the Board of Directors. This also seemed to address Mohieldin's concerns.

3. (C) Mallory and Dabbous stated that they would redraft the MOU, taking into consideration the suggestions received from the GOE and the GOM. The redraft would then be circulated again for any additional comments. Mohieldin said his staff would prepare a memo for Prime Minister Nazif with the details of the Fund. Nazif has already agreed in principle to Egypt's participation in the Fund.

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